

Mexico Matters!

Business News & Updates for Opportunity Seekers



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What will the New President of Mexico Mean for U.S.- Mexico Relations?

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Not only did U.S. voters go to the polls in 2012 to choose a president, it was a presidential election year in Mexico as well. While the U.S. adopted the status quo by reelecting President Obama and leaving control of the House with the Republicans and the Senate in the hands of the Democrats, Mexicans opted for a new direction. After 12 years in office, the right-leaning PAN party's candidate lost to the PRI's Enrique Pena-Nieto who also defeated Manuel Lopez Obrador of the left-wing PRD. The elections were held in early July. The new president will take the oath of office in January. There is no re-election of politicians in Mexico. The president serves one six-year term. Senators and representatives are also limited to one term.

The victory by Pena-Nieto marks the PRI's return to power after ruling Mexico for more than seven decades. With the PRI's loss to the PAN in 2000, Mexico became a truly democratic country. Although many analysts predicted that without power and the ability to confer favors on constituents, the PRI would disappear, the party has been able to reform itself and become a viable and effective centrist alternative to the PAN and the PRD.

Although it is not yet clear what this election means for U.S.-Mexico relations, most analysts do not see any major changes on the horizon.

With immigration now at zero or possibly even in negative numbers, meaning that the number of undocumented Mexicans returning to Mexico each month equals or exceeds the number entering the U.S., the table may be set for immigration reform in the U.S. which is likely to benefit Mexico. One in ten Mexicans lives in the U.S. and remittances sent to family represent Mexico's large source of foreign currency after petroleum exports. Apart from the economic impact, regularization of immigration status would allow millions of Mexicans to travel to Mexico to visit family from whom some have been separated for many years.

Perhaps the most significant issue has to do with the battle against drug trafficking. President Calderon made the eradication of drug cartels a central focus of his administration. The costs have been high. Over 55,000 people have died during the five plus years since Calderon instituted his policies—the vast majority of those killed were cartel members. Although Pena-Nieto has publicly pledged to continue the fight, with opinion polls showing most Mexicans support this position, some insiders believe the new focus will be less on targeting high profile drug traffickers and more on stopping other types of crime. Drug cartels have diversified into other criminal activities that have a much greater impact on the average Mexican than do the

armed confrontations between rival drug gangs. These crimes include extortion of small businesses, robbery, and kidnapping for ransom.

The biggest changes are likely to be seen in domestic policy. The Mexican political system is fraught with many of the same challenges the U.S. faces. The Mexican presidency is in fact a constitutionally weak office. Most legislation can be passed only with the support of a majority in congress and the senate. No party has enjoyed a majority in either chamber during the past 12 years, and there has been very little willingness on the part of the PRI to work with a president from the opposing party. The situation may change with the PAN out of Los Pinos (Mexico's White House). Some observers believe that legislators from the PAN will be able to find

common ground with the centrists from the PRI to push forwarded much-needed reforms. Evidence of coalition building is already taking place even before Pena Nieto takes office. Mexico recently enacted reforms to its labor law which introduced several employer-friendly features. Another important reform measure which Pena Nieto supported during the campaign is in the energy sector. Mexico has vast reserves of oil and gas, but its state-owned oil company (Pemex) lacks the resources needed to exploit them. One solution is to open the energy sector to foreign companies which would reverse a nationalization policy (enshrined in the Constitution) dating back to the 1930's. Spending on infrastructure, reforms to the tax code to broaden the tax base, and efforts to reduce the influence of large monopolies on the economy may also find bipartisan support.

Economic Indicators

(with data available through December 4, 2012)

	2004	2005	2006	2007	2008	2009	2010	2011	2012 (p)
GDP Growth	4.2%	3.2%	4.8%	3.2%	1.3%	-6.1%	5.5%	3.9%	3.8%
Inflation	5.2%	3.3%	4.1%	3.8%	6.5%	3.6%	4.4%	3.8%	4.2%
Interest Rates (28-day Cetes average)	6.8%	9.2%	7.2%	7.3%	7.7%	5.4%	4.4%	4.2%	4.3%
Government Surplus / Deficit as % of GDP)	- 0.3%	0.0%	+0.3%	+0.1%	-0.1%	-2.3%	-2.8%	-2.5%	-2.5%
Urban Unemployment Rate (annualized)	5.1%	4.3%	4.8%	5.0%	6.0%	5.9%	6.5%	5.7% (Oct. 2012)	

In billions of US\$	2004	2005	2006	2007	2008	2009	2010	2011	Jan-Oct 2012	Jan-Oct 2012/2011 (% change)
Trade Account Balance	-\$ 8.81	-\$ 7.59	-\$ 6.13	-\$10.07	-\$17.26	-\$4.68	-\$ 3.01	-\$ 1.17	+\$ 0.47	N/A
Imports	\$196.81	\$221.82	\$256.06	\$281.95	\$308.60	\$234.39	\$301.48	\$350.84	\$308.83	6.3%
Exports	\$188.00	\$214.23	\$249.93	\$271.88	\$291.34	\$229.91	\$298.47	\$349.68	\$309.30	7.0%
In billions of US\$ (goods, balance of payments basis)	2004	2005	2006	2007	2008	2009	2010	2011	Jan.-Sept 2012	Jan-Sept 2012/2011 (% change)
Bilateral Trade Balance	+\$47.59	+\$53.17	+\$68.17	+\$78.68	+\$68.34	+\$49.53	+\$66.33	+\$65.56	+\$48.19	- 1.7%
Mex. Imports from US	\$110.74	\$120.32	\$133.83	\$136.17	\$152.00	\$129.68	\$163.32	\$197.55	\$160.64	9.7%
Mex. Exports to US	\$158.33	\$173.49	\$202.00	\$214.85	\$220.34	\$179.21	\$229.65	\$263.11	\$208.84	6.8%

	2004	2005	2006	2007	2008	2009	2010	2011	Dec. 4, 2012
Exchange Rate (yr-end, fix)	\$11.15	\$10.63	\$10.81	\$10.92	\$13.83	\$13.07	\$12.35	\$13.95	\$12.96

Sources: AMCHAM, *Banco de Mexico*, *INEGI*, *Hacienda*, and the U.S. Department of Commerce

Country Profile: The Southeast Region

Most people are probably familiar with the resort city of Cancun and the Riviera Maya region located in the Mexican state of Quintana Roo on the Yucatan Peninsula. While tourism is an important industry in the region and Cancun is the largest resort city in Mexico, there is much more to southeastern Mexico. In addition to Quintana Roo, the southeast region includes the states of Yucatan, Campeche and Tabasco. Bordering Belize and Guatemala, the region lies along the coast of the Gulf of Mexico and the Caribbean Sea. The region is the fastest growing in terms of job creation. The total population in the region is about 6 million inhabitants.

Campeche is dominated by oil production, which accounts for about 53% of the state's GDP. Large oil deposits lie just offshore in an area of shallow waters of the Gulf of Mexico called the Sonda de Campeche. Campeche's oil and gas production accounts for 37% of Mexico's total with crude oil alone representing 76% in absolute numbers. Fishing is another important industry along with cattle ranching and mining of various minerals in the interior of the state.

Neighboring Tabasco is also dominated by oil production. Along with natural gas, this represents most of the state's GDP. Manufacturing is focused on food processing, bottling and tobacco products. Petroleum refining and cement production are also significant employers. The state experiences heavy rainfall and frequent flooding which makes annual crop production difficult, although corn, sorghum and beans are produced in significant quantities. From a commercial standpoint, perennial crops play the most important role in the economy. These crops include cacao, coconuts, oranges, bananas, and sugar cane. Livestock production is also important on the natural grasslands located inland from the coastal region.

The state of Yucatan, which shares its name with the peninsula on which it is located, has traditionally focused on agriculture, fishing and food manufacturing. However, the state is home to the recently modernized and expanded container port of Progreso. With these infrastructure improvements the state is trying to leverage advantages that include some of the lowest manufacturing costs in Mexico. Containerized cargo can be shipped to Houston, New Orleans or the U.S. East Coast as well as Europe and various destinations in South America. As a result, there has been a growth in manufacturing in Yucatan. Clothing and jewelry production are leading categories currently, but the state is pushing for more industrial manufacturing as well.



Business Tips

Importing Products into Mexico—Customs Issues

Although the North American Free Trade Agreement has eliminated almost all tariffs on products manufactured primarily in the U.S. and Canada, costs and other obstacles exist when crossing the border. Sending a product made in Missouri to a customer in Mexico is not the same as sending it to a customer in Florida.

In most cases, a product entering Mexico must be imported by a Mexican person or company who is a registered importer. The registration process is not complicated or particularly expensive. Thousands of companies in Mexico are registered importers. In addition, the importation must be handled by a Mexican customs broker who is chosen and expressly authorized by the registered importer. The customs broker, who is licensed by the federal government, is responsible for classifying the merchandise, confirming the country of origin and determining whether any tariffs apply, collecting the 16% value added tax, and determining whether any special permits are required or whether any other rules apply such as the need for appropriate Spanish- language labeling on consumer goods meant for resale. Of course customs brokers charge a fee for these services.

As a result of these rules, it is normally not possible for customers in Mexico simply to place an on-line or catalogue order from a U.S. vendor. Unless the customer in Mexico is a registered importer, or is willing to pay a fee to an entity to serve as the importer of record, the transaction cannot be completed. In fact, many Mexicans living in the northern part of the country utilize package receipt services in U.S. cities like El Paso, Laredo and McAllen which allows them to place orders from Amazon, ebay, and catalogue retailers to be delivered to the U.S. address which they can eventually pick up on a future trip across the border.

Not surprisingly, the most common market entry strategy for U.S. exporters is to find an independent distributor who is interested in importing, carrying and promoting the exporter's product among the distributor's Mexican customers. Most distributors are approached on a regular basis by U.S. and other manufacturers about their potential interest in serving as a distributor. Generally they are looking for products that complement their current line of products and could be of interest to existing customers. U.S. exporters that manufacture big-ticket or made-to-order products are usually better off finding a commission sales representative in Mexico who can generate orders in Mexico and arrange a direct sale by the U.S. manufacturer to the Mexican customer. Assuming the end user in Mexico is a medium size or larger business entity, it is probably a licensed importer with an established relationship with a Mexican customs broker.



Culture Corner

The Mexican Flag

The flag was created after Mexico gained its independence from Spain in **1821**.

The meaning of the colors changed during the years:

Green on the left changed from Independence to **Hope**, white in the center from Catholicism to **Unity** and red changed from representing the union of Spanish- speaking Americans and Europeans to representing the **spilled blood** of Mexican heroes.

The vertical tricolor also displays the “**Mexican Coat of Arms**”, which is inspired by an **Aztec** legend. According to an old prophecy an eagle eating a snake while sitting on a cactus, showed the Mexican people where to build their capital of Tenochtitlan, where today you find the thriving civilization of Mexico City.

Since 1939 Mexicans honor their flag on February 24th with the holiday of “**El Día de la Bandera**”.



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